Customer Relationships to the Forefront

In a 1994 study, A.T. Kearney found that cost competitiveness ranked first among the nine most frequently mentioned issues viewed by CEOs as "critically important." That same year, nearly 50 major news articles related to cost cutting and downsizing appeared in leading business magazines such as *Business Week*, *The Economist*, *Forbes*, and *Fortune*, and in journals like the *Harvard Business Review*, the *Sloan Management Review*, and *Wharton Magazine*. These publications allocated far less coverage to the 1994 survey's second most "critically important" issue: customer relationships. Two years later, the focus in the business press had already shifted, with customer relationships gaining a substantial edge over cost cutting and downsizing. When A.T. Kearney's 1997 CEO Global Business Study revealed that cost cutting and customer relationships had traded positions, the news media had also shifted its emphasis.

In today's business environment, companies must pursue both to be successful. "Our business cannot grow profitably without being cost competitive," asserted one 1997 CEO study participant. Another argued that the two — costs and customers — are in fact a cause and an effect. "If we are not cost competitive," he declared, "we can't increase customer value."

Supplier Relationships Emerge

"Relationships with suppliers are the first step in the whole process," stated one executive in the 1997 study. Yet "historically, companies have not considered procurement a key business activity" ("Buying Better," *Industry Week*, 21 July 1997). In the 1994 A.T. Kearney CEO research, relationships with suppliers were not even mentioned by CEOs. That corporate chieftains, particularly those in the auto industry, have begun to appreciate their significance should not be surprising. Consider how Honda interacts with and relies on its suppliers. "First," notes *Industry Week*, "the company marries its suppliers for life. When Honda signs a contract with a supplier, it expects to maintain that relationship for 25 to 50 years." Honda buys 80% of the cost of every car it makes "to the tune of $6 billion worth of goods from North American suppliers every year." A senior vice president of purchasing and corporate affairs for Honda of America, Dave Nelson, stated "Our 13,000 employees only make about 20% of the cost of the car, so it's critical that we purchase well." Even so, value-added relations with suppliers ranked only ninth among the 27 priorities identified by *A.T. Kearney's 1997 CEO Global Business Study*.

Honda and other companies come to market only as fast as the slowest member of their supply chain. Moreover, quality is only as good as the weakest member of the supply chain. Asked why value-added relationships with suppliers have become so important, one U.S. executive echoed Honda's thinking. "We basically outsource 70% of our suppliers, achieving best cost and quality is of greatest importance."

Partnership Priorities

Added-Value Areas		1st	2nd	3rd	4th
Cost Reduction	**N. America**	62%	28%	6%	3%
	Global	52%	26%	12%	9%
Quality Improvement	**N. American**	27%	39%	20%	9%
	Global	28%	40%	18%	12%
Access To New Resources	**N. American**	3%	25%	57%	15%
	Global	8%	22%	43%	27%
Enhanced Sales	**N. American**	5%	6%	14%	74%
	Global	10%	11%	25%	52%

Source: A.T. Kearney 1997 CEO Global Business Study

FIGURE 4

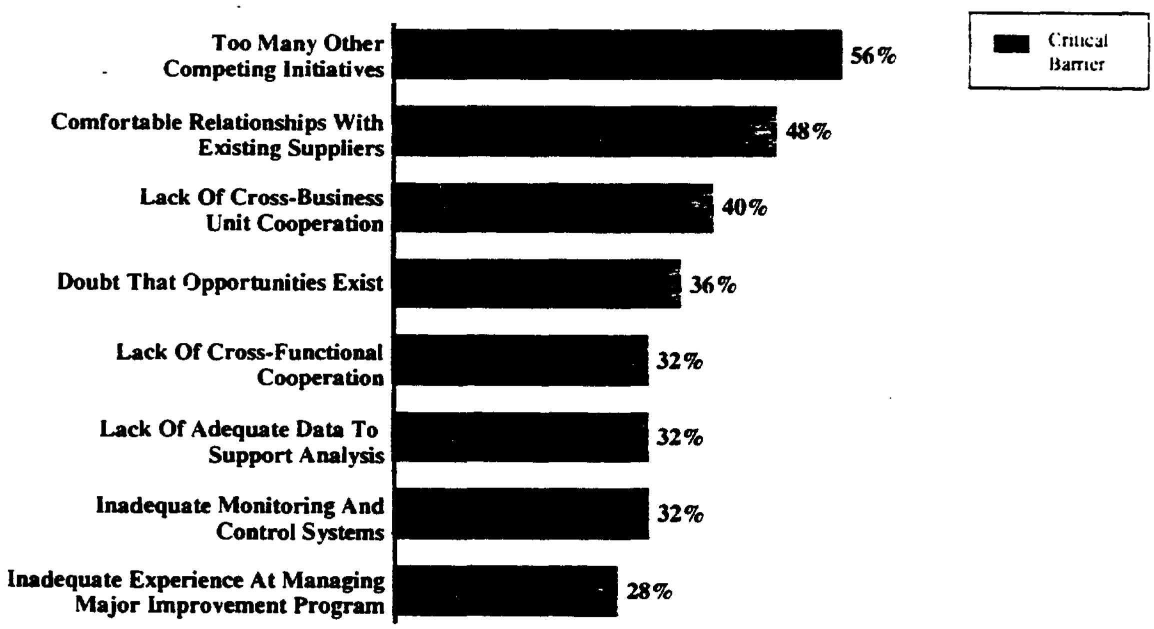
Most executives surveyed emphasize relationships with suppliers that will help reduce cost and assure product quality (*Figure 4*). However, this may be short-sighted. With 70 – 80% of product value coming from suppliers, few companies can afford to overlook the additional value that the creativity and capability of suppliers can contribute to innovation and growth. A significant minority of executives already see the opportunity: they rate access to new resources and enhanced sales as their number 1 or 2 priorities for supplier partnering. "The whole of our business relies on adding value…. We provide our customers with product and service. That is the only reason we exist."

COMMON GOALS/COMMON BARRIERS

A.T. Kearney's 1997 CEO Global Business Study found that customers tend to preoccupy CEOs' time and energies, often at the expense of suppliers. Yet those who have made supplier relationships a priority — representing about a fourth of the companies interviewed — conclude that the end result is a classic win-win proposition. Greater quality, stepped-up innovation, and better value combine to provide better value for customers. More thoroughly satisfied customers prove key to better performance on the bottom line.

While suppliers may well be the next frontier, the 1997 research suggests that most companies surveyed face considerable organizational barriers (*Figure 5*). Several obstacles must be overcome in order to forge high-quality, value-added, strategic relationships with suppliers. In North America, where CEOs' expectations vis-à-vis supplier relationships frequently are limited, the primary barrier is a myriad of competing initiatives — a factor cited by more than half of all interviewees. Europeans most often mention the lack of cooperation among business units and across functions. South Americans appear hobbled by poor inter-functional cooperation along with a paucity of data. In the Asia-Pacific region, a lack of internal skills and experience impedes progress.

Barriers To Forming Effective Supplier Partnerships (North America)

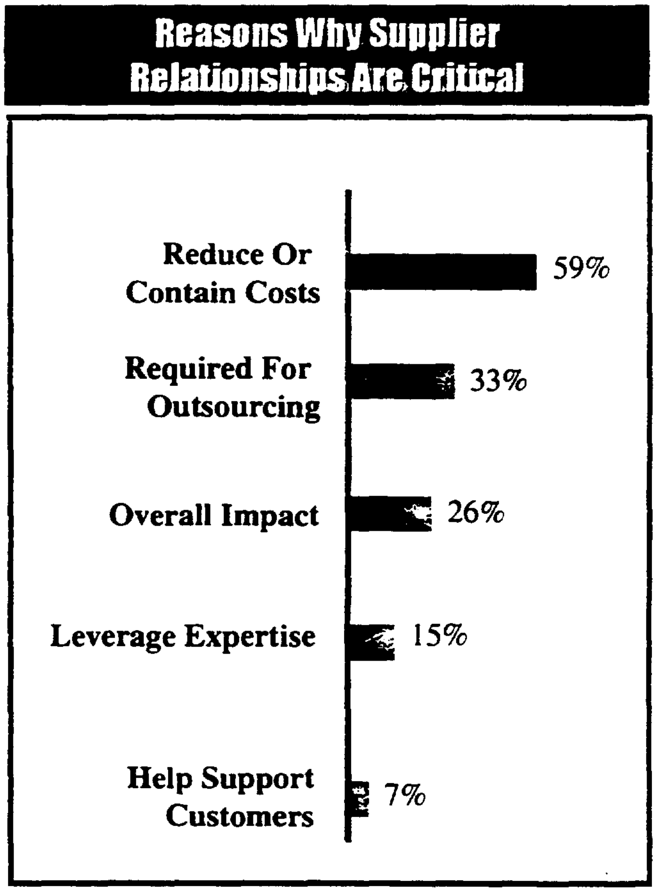


Source: A.T. Kearney 1997 CEO Global Business Study

FIGURE 5

Nevertheless, many companies continue to describe their sourcing programs as "highly" successful. The reality is that few actually have captured performance benefits that would justify such claims. While the global top quartile of performers attained annual improvements at twice the rate of average competitors, the companies in the lowest quartile were frequently unaware of their poor performance.

All of which points to leadership. Most CEOs simply have not placed supplier relationships high enough on their agendas. Insufficient numbers have looked to suppliers as a source of competitive advantage and only rarely have they summoned the imagination to empower procurement to support their customers. Particularly in North America, almost 60% of CEOs are content with cost reduction alone from supplier relationships (*Figure 6*). A mere 7% make the connection between supplier relationships and their customers.



Source: A.T. Kearney 1997 CEO Global Business Study

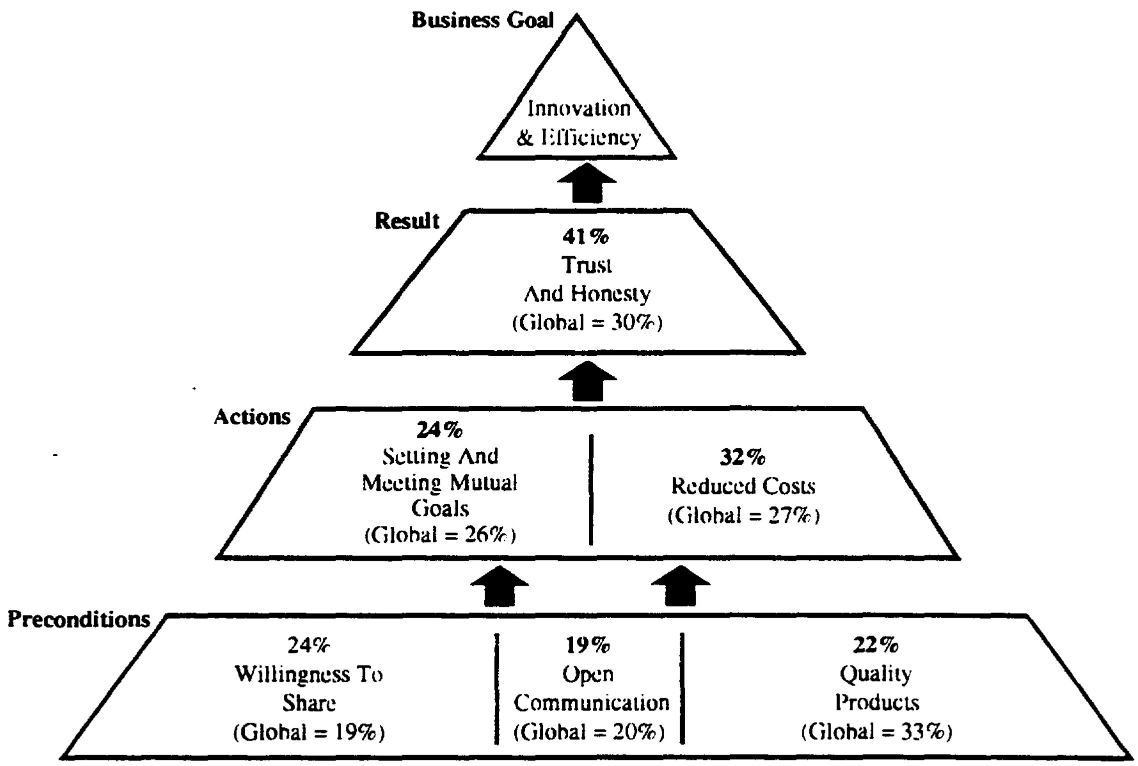
FIGURE 6

Ultimately, the CEO must sponsor and drive a program to develop the necessary supplier relationships in spite of preexisting organizational and cultural barriers, and internal resistance to change. From their bully pulpit, CEOs must rally their companies to challenge traditional thinking and approaches.

Building on Trust

Asked to enumerate "the key features of a successful partnership with clients" in 1997, again and again executives mentioned "trust". "Trust: that's all there is" declared a top ranking U.K. executive. "Trust, honesty, and deliveries made on time," declared a Canadian leader. "Trust and mutual understanding," exclaimed a top U.S. executive. "Openness, transparency.... Trust and quality are essential," stated a Brazilian respondent. "Understanding each other's goals, trust and a mutual interest," said another U.K. executive. "Trust, joint understanding...and evaluation of performance," an Australian business leader maintained.

Most Cited Features Of Successful Partnerships (North America)



Source: A.T. Kearney 1997 CEO Global Business Study

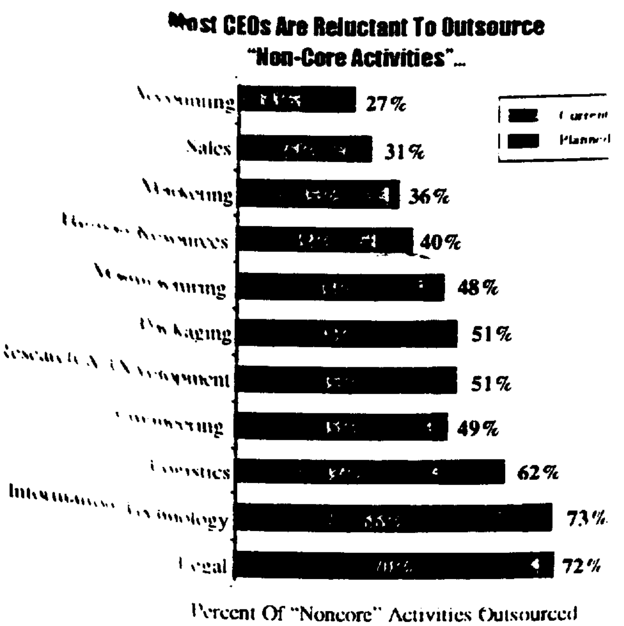
FIGURE 7

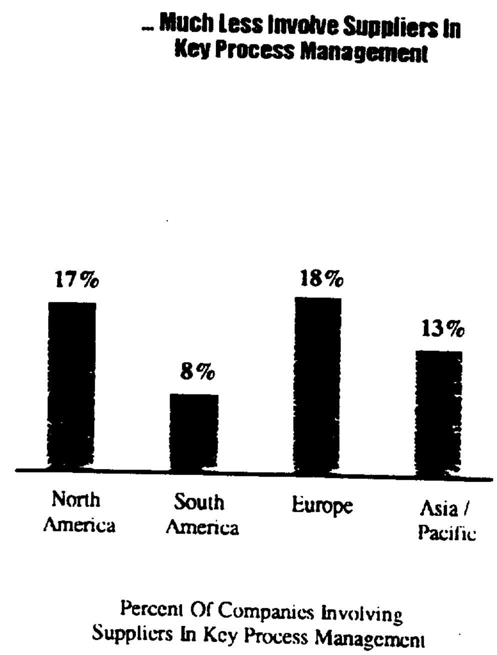
Trust is earned when companies work together to innovate faster and to deliver product more efficiently — when the buyer's engineer lets "a supplier's engineer come in and tweak his precious design" (Brown 1997). Working together does not occur spontaneously (*Figure 7*). It requires three preconditions. First, the partners must be willing to share. Second, communications must be open. Third, the supplied as well as finished products must be of the highest quality. These preconditions will beget the actions that establish good faith: the setting and meeting of mutual goals on the one hand and reduced costs on the other. Good faith, in turn, reinforces trust and honesty.

With trust established, the partners jointly aim to achieve two objectives: ...ster innovation and efficient product delivery. The objectives result from a range ... ities:

- ... thinking as partners results in more and better ideas, innovative product ... and a better and more clear understanding of market issues;
- ... improvement, the mutual "tweaking" will result in closer cooperation, lower ... costs, lower consumer prices, and improved market share; Prototype and ... support will give rise to faster product development cycles and better overall ... quality;
- ... of alternative technologies will enable the partners to glean the best ... and, with some luck, be first to market;
- ... chain integration will mean fewer out of-stock items, lower costs, and better ... support; and
- ...nal ventures ultimately could reduce risks, foster broader global growth and ... collaborative ventures, such as shared international service centers.

Few companies have achieved this level of trust with their suppliers. A T. Kearney's 1997 research identified executive reluctance on two fronts that impedes trust ... 8). Companies are loath to involve suppliers in key process management. They are also disinclined to outsource even traditionally "non-core" activities like accounting and legal services, marketing and human resources.





A.T. Kearney 1997 CEO Global Business Study

FIGURE 8

Leveraging Supplier Relationships

Traditionally, purchasing has been transaction focused — getting the right quantity and quality of goods of all kinds to the right place at the right time at the lowest price possible. Traditional purchasing is insufficient in today's competitive environment. Buying goods at the cheapest price absent an overall strategy that takes into account competition, total cost of ownership, and a host of other factors is a recipe for disaster.

Traditional thinking centered on cost-control. Now "a procurement chief may be told that merely buying from the lowest bidder isn't always best, and he may not like it" (Brown 1997). According to the *Harvard Business Review*, strategic needs are more likely to influence procurement, with items to be purchased assessed according to their impact on company performance. "Many companies now realize that they need to manage suppliers as a portfolio and that much of the value that those companies ultimately deliver to their customers will, in fact, come from the suppliers that provide them with their most important products and services," says Larry Kohn of A.T. Kearney. ("Procurement: A New Strategic Frontier," *Harvard Business Review*, November-December 1996). "Strategic advantage will come from securing the right relationships with key supply chain partners" he adds.

Performance leaders secure such advantage by approaching supplier relationships in a dramatically different way, tailoring their supply strategy to fit their overall corporate strategy. Such companies are able to make supplier relationships a true source of competitive advantage — across the entire business (*Figure 9*).

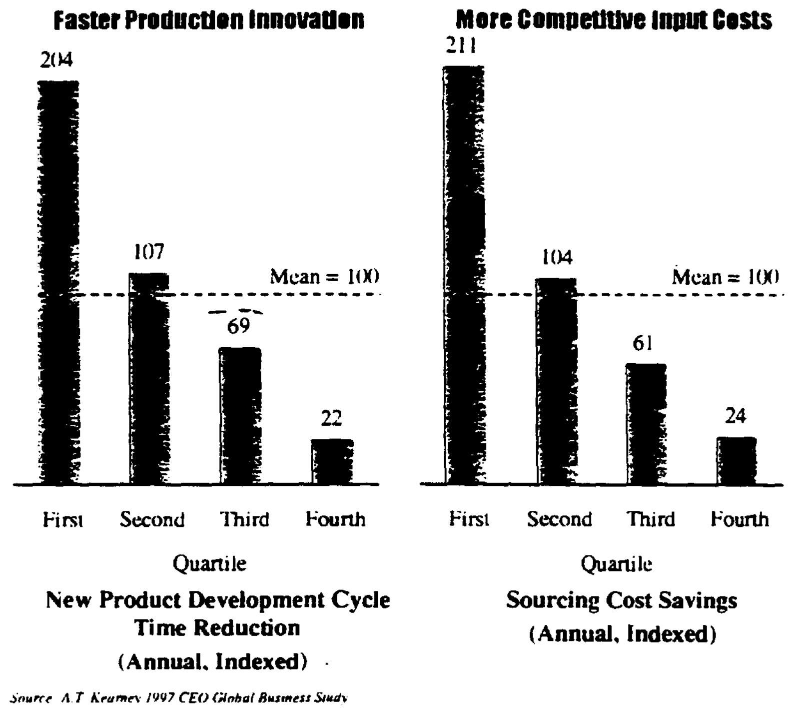


FIGURE 9

Adopting an extended-enterprise approach, they squeeze out waste and reengineer the processes that link companies together to make, sell, deliver, and support products. CEOs of these companies — most of whom emphasize objectives like cost competitiveness, revenue growth, and creation of shareholder value — implement formal programs with key suppliers to ensure that these objectives are realized. These CEOs do not achieve cost reduction at the expense of all else. Even when they cut inventories by half and/or reduce supply-chain costs by 25% or more, their main concern has been to use suppliers to maximize their own products' competitiveness.

The performance leaders have moved beyond the traditional purchasing mindset to adopt models for fully leveraging the capabilities of suppliers. Managing the relationships much as they might portfolios, they opt to work closely in mutually trusting relationships with select suppliers. They identify world-class benchmarks to assess their *mutual* performance and to challenge each other to meet the highest possible standards. At the same time, they gather intelligence about competitors, markets, and other suppliers, feeding it into their strategy-making departments and sharing this information with suppliers. Companies have found that the value and goodwill created in the supplier-relationship ultimately flows back to the very customers that are their lifeblood.

At Bristol-Myers Squibb, according to *Industry Week*, procurement comprises "physicians, lawyers, pharmacologists, computer experts, travel experts, and the like." In the manner of Wall Street analysts, or even an intelligence-gathering agency, they determine "what the market forces are, who the key players are, who's a rising star, how technology is changing and much more" (Harrington 1997). They are a critical part of the CEO's strategy team.

BUSINESS IMPLICATIONS

What are the implications from this survey for companies and executives preparing for the new millenium?

Value-based customer relationships become the business focus. CEOs have heard the message from their marketplaces. Companies seeking long-term customer relationships must provide higher value: more innovation, better quality, greater responsiveness and agility, all at lower cost. Competing on a single dimension isn't enough. The entire organization, indeed the entire value chain, must be focused on this goal.

Suppliers play an expanded role. Suppliers must play an even greater role in delivering value to the end customer. At a minimum, companies must work with suppliers to ensure that they provide products and services efficiently and reliably. After all, the suppliers control upwards of 70% of the final cost of many products. More importantly, however, companies must encourage the creativity and harness the resources of their suppliers to support the new product innovation and geographic market coverage that *their* customers demand.

Companies will need to manage a portfolio of relationships. Companies should be wary of the hyperbole surrounding the pervasiveness of customer-supplier "partnerships." Even a vague commitment to "work together" qualifies as a partnership in some circles, but this falls far short. Companies will need to manage many types of relationships with both customers and suppliers going forward, but few such relationships will become truly rich partnerships. To do so, customer and supplier must agree and set joint business goals. Then, managing the relationship for results is key. Fundamental to this is trusting that each party can and will perform as agreed, whether it be in terms of willingness to share information, open communication, product quality. This trust comes from demonstrated performance, and in turn fosters continued growth of the relationship.

Senior management must lead and drive changes. Implementing this broader extended enterprise (customer-company-supplier) value chain approach will require senior executive leadership and involvement. It touches too many parts of the business; individual departments and functions will be limited in what they can accomplish. For many of the survey respondents it may mean a consolidation or reprioritization of initiatives to focus resources where the payback is greatest. And it will require a critical look at the decisions made, attention paid and resources applied to the supply side of the value chain. This also includes challenging the assumptions that have led to "comfortable" relationships with existing suppliers. Executives must ask whether these are the best suppliers to help accomplish the corporation's goals going forward.

PURCHASING/SUPPLY EXECUTIVE ISSUES

A.T. Kearney's *House of Purchasing and Supply*[SM] framework (*Figure 10*) provided the overall structure for the survey of and focus group discussions with purchasing executives.

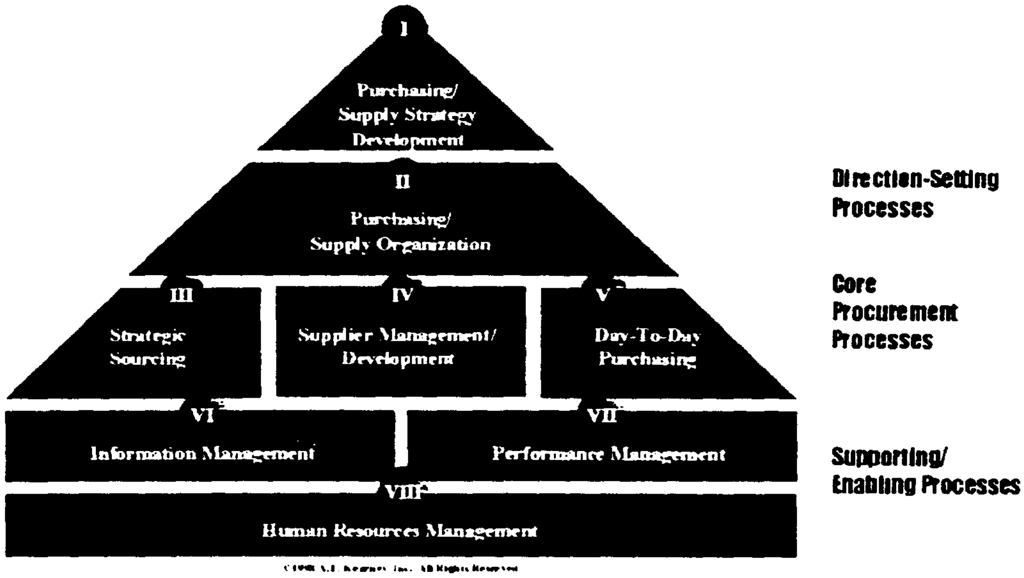


FIGURE 10

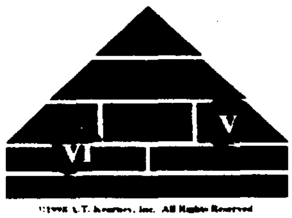
The framework is the product of extensive research into leadership practices in procurement conducted by A.T. Kearney. The *House of Purchasing and Supply*[SM] framework examines the three levels of the procurement discipline: direction-setting processes (the apex), core procurement processes (the center), and supporting/enabling processes (the foundation). To ensure a balanced study of the purchasing and supply discipline, all eight "rooms" of the *House of Purchasing and Supply*[SM] framework were addressed by this research study.

The study team conducted eleven regional focus groups with over 160 purchasing/supply executives in 1997. Prior to each focus group, the executives completed a survey containing 37 forecasts. The survey measured the executives' agreement and disagreement with each statement. The researchers discussed the responses with the focus group participants. Highlights from these discussions, as well as pertinent anonymous quotations, are contained in the full research report available from the Center for Advanced Purchasing Studies.

The researchers applied a statistical social science tool called *Factor Analysis* to uncover key issues or constructs in the survey data. Purchasing supply executives raised 18 notable areas of concern over the next five and ten years. These issues are examined in descending order of consensus.

Purchasing/Supply Executive Issues	
1. Electronic commerce	10. Process uncoupling
2. Strategic cost management	11. Global supplier development
3. Strategic Sourcing	12. Third-party purchasing
4. Supply chain partner selection and contribution	13. Virtual supply chain
5. Tactical purchasing	14. Source development
6. Purchasing strategy development	15. Competitive bidding and negotiations
7. Demand-pull purchasing	16. Strategic supplier alliances
8. Relationship management	17. Negotiation strategy
9. Performance measurement	18. Complexity management

1. ELECTRONIC COMMERCE

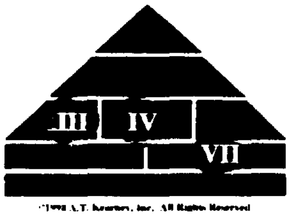


Electronic commerce technologies will support electronic efficiency efforts. The overwhelming consensus of focus group attendees is that this trend will accelerate over the next 10 years. Vast quantities of business information will become available. The Internet — including Intranet, Extranet, and Internet technologies — will provide the backbone of electronic commerce once several key issues are addressed.

A very powerful communication integration is already underway matching future improvements to the World Wide Web with the adoption of enterprise-based systems. The need for speed in decision-making and the need to increase the velocity of product and service fulfillment are driving this trend. Many firms are already using the Internet for information transfers. However, the Web will be used more as a vehicle for conveying "demand pull" throughout the chain rather than as a mechanism to push information to supply chain managers.

Once security issues are fully addressed, purchasing transactions will explode on the Internet. Order-tracking, funds transfer, production planning and scheduling, receipt acknowledgment and other basic processes will be fundamentally changed by information and the way it can be transferred between supply chain members. Using an analogy, the Internet will affect the supply chain even more radically than the interstate highway's impact on the transportation industry.

2. Strategic Cost Management



Cost competition will increase due to worldwide competitive pressures. Firms in different supply chains will increasingly be forced to examine cost reduction opportunities through joint process improvements. Increased cooperation between firms to establish cost drivers and individual/joint cost reduction strategies will enable the reductions needed for improved competitive position.

Formula pricing approaches will have to be developed for engineered and specified products and services to assure equitable profits and return-on-investment, while reducing costs. Cost models and cost-saving sharing will become increasingly important in non-commodity markets. Principally strategic cost management will influence competitive cost structures.

3. Strategic Sourcing

Strategic Sourcing will drive supply chain management initiatives. Comments from focus group participants indicate two related but distinct trends. First, supplier assessment metrics will become more detailed and precise as purchasing examines performance at finer levels of detail. Second, metrics will become more individualized as companies tailor metrics to specific suppliers.

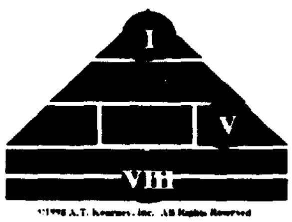
These two trends will increase the level of complexity involved in managing supplier evaluation and assessment systems. The metrics, however, must not become so complex that they are difficult to manage on a corporate level. There is no strong trend to reduce complexity and standardize by applying one metric throughout a supply chain.

4. Supply Chain Partner Selection and Contribution

Determination of first-, second-, and possibly third-tier suppliers will become more critical to dominant supply chain companies in the future. "Lean supply chains" will be a competitive strategy. Resources will increasingly be shared between highly interdependent firms who rely on each other as customer/supplier to maximize value added contributions and reduce duplication of resources.

Increasingly integrated supply chains with two to four partners will provide the basis for competing and generating cash flow and return-on-investment. This is a logical extension of firms first improving efficiencies within functions, then across-functions, to process improvement between and across multiple firms. Strategic purchasing competency centers will be established at dominant companies with highly trained personnel. They will study their supply chains and search for opportunities to achieve competitive advantage through their choice of supply chain partners; determination of core competencies; and influence of design, manufacturing, operations and sourcing.

5. Tactical Purchasing



There will be tremendous change in tactical procurement in the future. Key activities will continue to include supplier evaluation, selection and development, including cross-functional and cross-enterprise teams. However, tactical purchasing activities such as ordering, quoting, expediting, etc. will be automated and head counts will be reduced. Selected low-value, non-critical, standard commodity purchases are likely to be outsourced to full-service providers. Procurement will thus have a continuing but changing role in tactical purchasing.

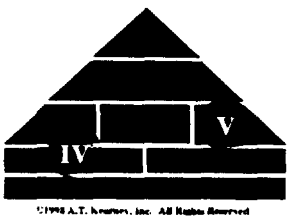
6. Purchasing Strategy Development

There will likely be more linkages between supply chain and business unit-/companywide strategies as firms look for innovative sources of competitive advantage. As supply chain management becomes more advanced, cost, technology, quality and time drivers throughout the supply chain will become better identified. Performance of the supply chain will be measured more effectively and executive performance will be linked to both internal and external supply chain performance.

To facilitate cross-enterprise supply chain integration, strategic purchasing personnel will develop strategic alliances with key supplier partners and customers. Implementation of demand-pull information systems will synchronize supplier payments with actual work, usage or sales of the product or service.

Insourcing/outsourcing decisions will be integrated into the strategic sourcing process. A single cross-functional executive group will establish what work will be done internally and what will be done externally. This will be a regular fact-driven decision process.

7. Demand-Pull Purchasing



Some forward-looking firms are investing enormous sums applying demand-pull purchasing philosophies to provide a seamless link between suppliers and buyers. They are becoming more sophisticated with customers on a part-number-by-part-number basis around the world. The main challenge will be integrating the information systems of key supply chain members. These systems will be based on enterprise-based software and Internet technologies.

8. Relationship Management

Relationship management will become more important to firms. In select industries, firms maintain multiple roles simultaneously — customer, supplier and competitor. Therefore, there will be a movement towards combining customer/supplier relationship management activities into one office to assure alignment of relationships (if concerns about reciprocity can be eliminated). Trust building, communications, joint planning and the fostering of interdependency will be viewed as stepping stones to achieve competitive advantage.

Transaction processing will be minimized with a large percentage of tactical purchasing activities outsourced to full-service third parties. These relationships will be managed as key but not necessarily strategic relationships.

A highly competent purchasing professional group will continue to drive performance with external suppliers to achieve competitive goals. Analysis of the supply base and coordinating highly skilled cross-functional teams will remain critical activities. Relationship management will change, but the distinction between supplier and customer relationships will remain.

9. Performance Measurement

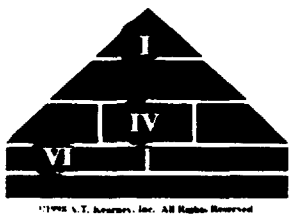
Supply chains will have a common set of core performance measures tied directly to individual companies' strategic and business unit performance. Common performance metrics will be established for supply chains in specific industries. These measures will be tied to strategic business metrics. Thus, new supply chain benchmarks will need to be developed and tied to particular corporate goals.

Profit measures, however, will not be routinely shared in the supply chain even though integrated information systems will facilitate the reporting and use of these measures. Market price changes at the final customer level will be transmitted quickly up the supply chain and will be a key driver of performance. Performance metrics other than costs will continue to be difficult to define.

10. Process Uncoupling

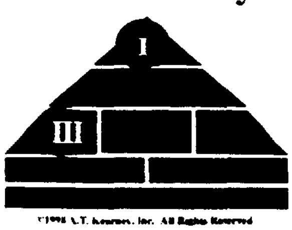
Firms will evaluate their insourcing/outsourcing decisions through systematic processes in the future. This assessment will require determination of core competencies in all stages of technology development, in product/process/service design and development, manufacturing/operations, logistics and service. There will most likely be a decoupling of processes where it is demonstrated that competing firms provide superior capabilities that leaves no chance of "catching up." Firms will be required to outsource processes when competitors are achieving superior performance — which implies decoupling of processes. Process uncoupling will increase the number of firms in some supply chains.

11. Global Supplier Development



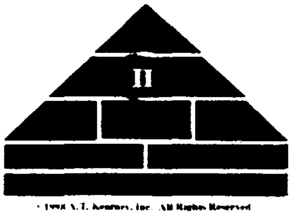
Global supplier development will prove critical to foreign market penetration. Companies are already developing world-class suppliers in emerging markets. This effort will intensify in the future. Firms will ask existing world-class suppliers to grow with them as the firms expand, i.e. to develop manufacturing capabilities in foreign markets. Local content restrictions will become a less pressing consideration. When local content development of a new supplier is needed, companies will ask an existing strategic supplier to develop the capability with a local firm via a joint venture. An emerging strategic issue is managing these joint venture relationships.

12. Third-Party Purchasing



Leading firms will buy all non-tactical products and services under master contracts. Consortiums that have major leverage and buying expertise will negotiate some of the contracts. Other contracts will be with third-party companies that also have major leverage and buying expertise. All transactions, releasing and accounting, will be performed electronically over a secured Internet-like network. Users will select products/materials/services directly from on-line databases maintained by suppliers or consortiums. All of the accounting systems will be tied together and accounts settled automatically. However, there is no clear trend in third party purchasing...some will use it, some will not.

13. Virtual Supply Chain

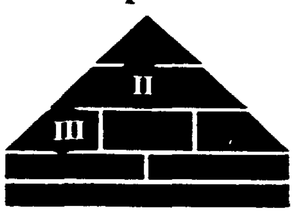


The creation of virtual supply chains is a secondary trend that will continue over the next 10 years. Mergers are becoming increasingly difficult. Companies need to enter into short-term alliances via virtual supply chains without the legal entanglements of mergers or long-term contracts.

14. Source Development

Supply chain integration will continue to develop, although the progress will be slow and difficult. Integrated information systems will facilitate the process, but the rapid change in technology and marketplaces will make supply chains difficult to integrate. Leveraging purchases across a supply chain will also prove difficult. The benefits of source development are clear, but difficulty in establishing them seems daunting.

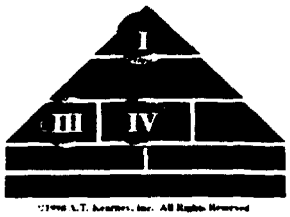
15. Competitive Bidding and Negotiations



Competitive bidding will continue to be used to ascertain market prices and award business. Many companies will take bids for non-strategic items. However, many of these items will have been outsourced, so third party buyers or consortiums will conduct the bidding. Governments will continue to use bidding for much of their purchasing.

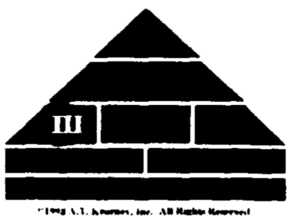
Purchasing will continue to negotiate with suppliers, independent of labor and customer negotiations. Competitive bidding will become more intensive because of greater price transparency and cost visibility.

16. Strategic Supplier Alliances



Global competition will increase, with higher performance expectations requiring continued focus on core competencies, but with expansion of access (internal and external) to product and process technologies. Firms will continue to outsource manufacturing, operations, services, logistics, and design and development on a selective basis. The success of many firms will depend on their ability to clearly establish external resources and competency needs and develop two-way business and technical exchanges to the benefit of both parties. The ongoing need for flexibility and asset management will require firms to establish alliances in order to maximize leverage and synergy of resources.

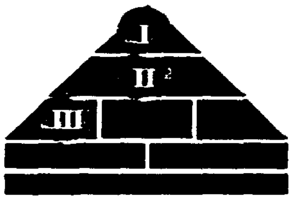
17. Negotiation Strategy



Negotiation strategy will continue to move toward win/win relationships. Companies are looking at total cost as a criterion and strong win/win relationship building is needed in order to lower total costs. This trend will continue and expand as evolving supply chain benchmarks allow firms to measure jointly supply chain performance.

This does not imply that negotiations will become less important. On the contrary, competition will increase as supply chain competition increases. However, negotiations will become more complex and sophisticated with less reliance on emotions.

18. Complexity Management



Supply chains will evolve upstream and downstream from dominant companies. These companies will dominate because of their size, technology leadership, or distribution systems. These companies will influence sourcing decisions and resource sharing throughout the supply chain. Managing the supply chains will be complex and require much relationship management. Joining and leaving the supply chain will become more difficult and complex actions.

Companies will continue to source strategically. Complexity management will intensify, creating new challenges for procurement professionals.

LINKAGES

The environmental scan identified two types of trends: socioeconomic and commercial. Socioeconomic trends influence CEOs only indirectly. The CEO surveys had less to say about the social and political environment, natural resources and the environment, demographics and industrial policy. The CEOs feel more directly affected by the work environment, technology, global business environment and market transactions. Their comments reflected their concerns with these trends.

Nonetheless, analysis of the data from the CEOs and Purchasing and Supply Executives reveals that both groups track most of the important environmental trends revealed in the futures scan. Also, both the CEOs and Purchasing and Supply Executives recognized the importance of developing appropriate procurement/supply strategies that take account of the changes implied by the environmental trends and that support the overall strategies of their organizations. Not unexpectedly, the Purchasing and Supply Executives had a much deeper understanding of these strategies than did the CEOs.

CEO issues were broader and more strategic. They focused on:

- **Relationships** — Customer Relationships (primarily) but also Supplier and Joint Venture Relationships;
- **Performance** — Cost Competitiveness, Revenue Growth and Shareholder Value
- **Managing Change** — Globalization, Technology and Industry Restructuring.

Purchasing/Supply Executive issues were narrower and more tactical:

- **Direction Setting** — Strategic Supplier Alliances, Strategic Cost Management, Supply Chain Partner Selection and Contribution, Purchasing Strategy Development, Demand-Pull Purchasing, Process Uncoupling, Third-Party Purchasing, Virtual Supply Chains and Complexity Management
- **Procurement** — Strategic Sourcing, Tactical Purchasing, Relationship Management, Global Supplier Development, Source Development, Competitive Bidding and Negotiation, Negotiations Strategy
- **Purchasing Infrastructure** — Electronic Commerce, Performance Management

Nonetheless, it appears that CEOs and their Purchasing Executives see the future in similar terms and are pursuing compatible strategies to prepare their organizations for the future

FUTURE RESEARCH

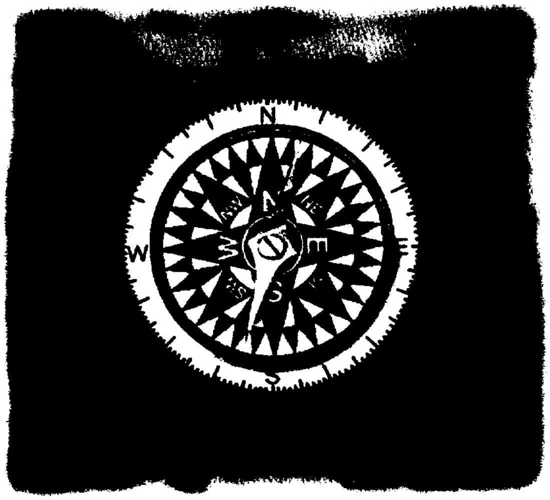
Forecasting and planning are never-ending processes. Competitors enter and exit, laws and regulations change, new technologies emerge, unexpected events occur, and strategies succeed and fail. Forecasts must be recast and plans must be changed. The forecasts in this report will ultimately be less than perfect — they will need periodic updating to reflect new knowledge and past actions. The intent of the sponsors is to update the forecasts on a regular basis and thus keep them useful and relevant to purchasing and supply professionals. It is also an intent of the sponsors to expand the scope of the data collection and forecasts to a global basis, thus better reflecting the reality of the world in which we live.

The Future of Purchasing and Supply

The Method

Considered one of the largest concentrated studies done on the purchasing and supply profession, find out how a team of experts put the information together.

As the profession moves into the new millennium, NAPM is poised for leadership. In the 1997-1998 NAPM Strategic Plan, one goal established a means for determining how NAPM will move and operate in the 21st Century. The goal ensures "NAPM has the proper structure and governance processes to successfully serve its customers and the profession in the future, given the changing environment." This strategic goal set the stage for one of the profession's largest studies ever.



The Strategic Plan's action steps within the goal called for outside assistance to study the profession and the environment, assess the association's current governance structure, assess and forecast the future purchasing and supply environment in five and 10 years, and, if needed, develop a plan to accommodate the changes taking place in the profession.

To support this goal and ensure that NAPM continues to provide leading-edge educational products, the professional environment was in need of study. NAPM and the Center for Advanced Purchasing Studies (CAPS) teamed up with A.T. Kearney, Michigan State University, and Arizona State University.

"The literature from the study is replete with forecasts of major trends," says Phillip L. Carter, D.B.A., the Harold E. Fearon Chair of Purchasing for ASU's College of Business and the director for CAPS. "Many individuals and organizations, public and private, invest a great deal of resources into forecasting the future. The challenge with this study was to convert this abundance of data into information useful for the report."

How the Study was Conducted

The cross-industry "The Future of Purchasing and Supply: A Five- and Ten-Year Forecast" concentrated on three main areas for gathering data: CEO interviews, macro external factors, and interviews with purchasing and supply executives based on a previously asked questionaire.

During CEO interviews conducted by A.T. Kearney in a prior study, facilitators asked several questions: "What are the most important trends? What are your plans for taking advantage of these trends? What implications do your plans have for purchasing and supply?" All questions were aimed at determining the impact of business trends on the profession five and 10 years out. Companies represented a wide range of industries including consumer products, retail, communications, healthcare, finance, oil and gas, automotive, transportation, and utilities.

The complete Forecast will be released mid-summer 1998.

A Concerted Effort

Recognizing the impact this type of study would have on the profession, the team (see box) set a detailed outline of progress to meet certain timeline goals. Actual work on the study began in early January 1997. The team spent the first few months reviewing and consolidating the current knowledge base and collecting information from other sources. By June of last year, nationwide focus groups were organized and scheduled. Then, by the end of December 1997, all focus panel and CEO interviews were complete. With all the data collected, it was time to write the report.

Each team member had various areas of the study that they were responsible for in terms of gathering and analyzing the data. The information was then merged into one report.

Concludes Phillip Carter, "Individual organizations should be able to readily use the forecasts as a check sheet. That is, each organization can ask itself if it is considering each of the trends in its own planning. If not, the reasons for not considering the missing items should be made explicit." PT

*By **Julie Murphree**, editor for* Purchasing Today®.

[illegible] Team

The following individuals [illegible] **the** team. The study [illegible] **by NAPM** and [illegible] A.T. Kearney [illegible] time.

[illegible] L. Carter, D.B.A., the [illegible] E. Fearon Chair of [illegible] for ASU's [illegible] of Business and [illegible] director for CAPS

[illegible] H. Slaight, vice [illegible], A.T. Kearney

[illegible] F. Inglis, vice president, [illegible] Kearney

[illegible] Markham, principal, [illegible] Kearney

[illegible] J. Swan, manager, [illegible] Kearney

[illegible] R. Carter, D.B.A., [illegible] **NAPM** professor [illegible] supply chain [illegible], Arizona [illegible] University

[illegible] M. Monczka, Ph.D., [illegible] **NAPM** professor of [illegible] sourcing and [illegible], global procurement [illegible] supply chain [illegible] initiative, [illegible] State University

The Future of Purchasing and Supply

The Tools

Welcome home! Your organization's initiatives have a place to stay.

If "The Future of Purchasing and Supply: A Five- and Ten-Year Forecast" becomes a key resource for you and your organization, your purchasing and supply department might end up moving to a new house. Architecturally developed by A.T. Kearney, the Forecast helped design a new house for the purchasing and supply management profession. From the foundation to the roof, the House of Purchasing and Supply is constructed to capture all the key components of the profession.

The House That A.T. Kearney Built

More than a year ago, A.T. Kearney developed the House of Purchasing and Supply as a result of a leadership practices study. Today, each room in the house is laid out to help purchasing and supply professionals evaluate their own practices and match them up to the various functions and activities with the different rooms to develop a focus.

The Floor Plan

For example, the top two rooms in the house, purchasing and supply strategy development and purchasing and supply organization, are direction-setting processes. At this level, strategy for the coming years is being developed. If one enters the middle rooms (strategic sourcing, supplier management and development, and day-to-day purchasing) the rooms are designed for core purchasing and supply processes. Here, the real work is being done. The foundation of this house is made up of information management, performance management, and human resources management — the support and enabling processes of the house.

Basically, the House of Purchasing and Supply can help any organization put their house in order in the area of purchasing and supply. "What organizations can do with this structure is evaluate their own practices and match up various functions and activities with the different rooms and then get an idea of where their focus is," says Tom Slaight, vice president of research and development for A.T. Kearney. "Each organization can see for themselves whether or not their activities fall into direction-setting, core procurement, or supporting processes. From there, they can determine where they need to spend more of their time."

A Living Room Example

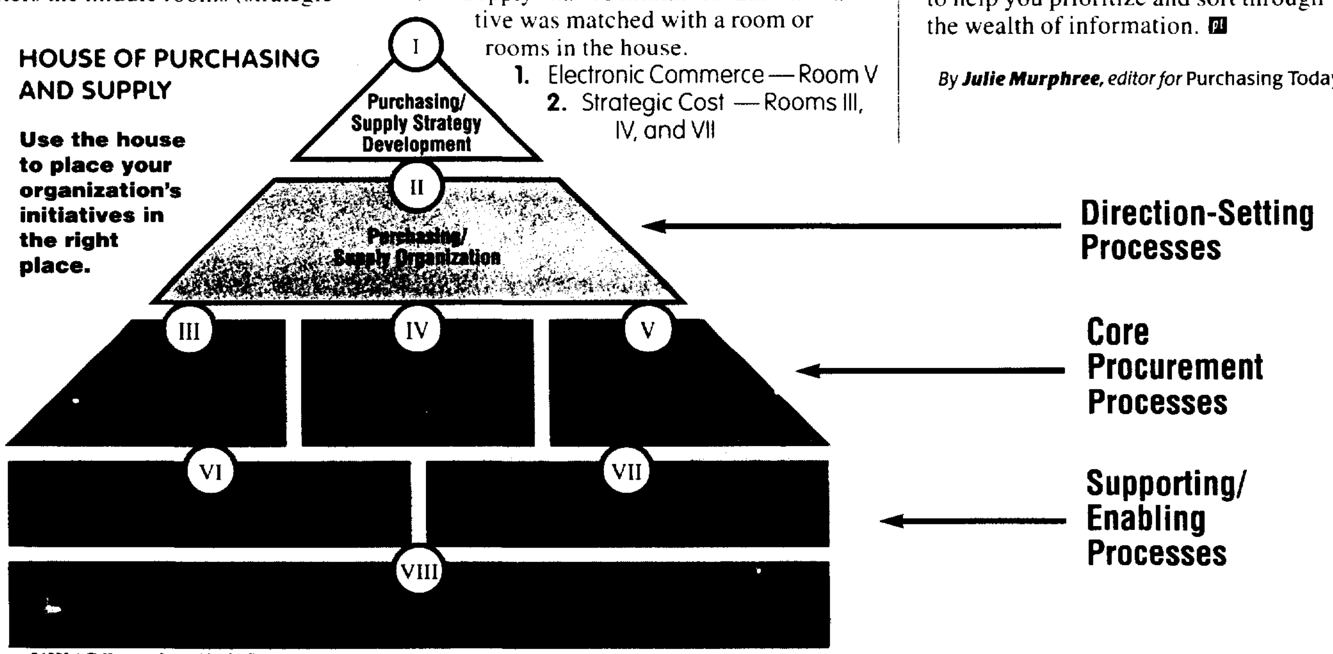
The study itself moved in and set up house in the House of Purchasing and Supply. "The Future of Purchasing and Supply" has 18 initiatives. Each initiative was matched with a room or rooms in the house.

1. Electronic Commerce — Room V
2. Strategic Cost — Rooms III, IV, and VII
3. Strategic Sourcing — Rooms III and IV
4. Supply Chain Partner Selection and Contribution — Rooms I, II, and IV
5. Tactical Purchasing — Rooms I, III, V, and VIII
6. Purchasing Strategy Development — Rooms I, III, IV, VII, and VIII
7. Demand-Pull Purchasing — Room V
8. Relationship Management — Rooms I, II, and VIII
9. Performance Measurement — Rooms VII and VIII
10. Process Uncoupling — Room II
11. Global Supplier Development — Rooms IV and VI
12. Third-Party Purchasing — Rooms I and III
13. Virtual Supply Chain — Room II
14. Source Development — Rooms II and IV
15. Competitive Bidding and Negotiations — Rooms II and III
16. Strategic Supplier Alliances — Room III
17. Negotiations Strategy — Room III
18. Complexity Management — Rooms I, II, and III

To review each initiative go to page 23 of this issue.

As you look at all the data coming out of the study, this house can be one tool to help you prioritize and sort through the wealth of information.

By *Julie Murphree*, *editor for* Purchasing Today®.



Tracking the trends: What is being said, what has been done, and what could happen.

Have you ever seen a movie or read a book that was so full of information and ideas that, even after walking out of the theatre or closing the cover, you had to take some time to digest it and determine your thoughts?

Such is the case with "The Future of Purchasing and Supply: A Five- and Ten-Year Forecast," recently released by NAPM and the Center for Advanced Purchasing Studies (CAPS). It is a mountain of information about the emerging trends and practices within the profession.

"I don't think an individual will be able to get his or her hands around the impact of this," says Joseph R. Carter, D.B.A., C.P.M., NAPM Professor at Arizona State University. It is difficult to absorb such a large body of information and analyze it at the same time. The study has just been published, but as researchers have presented their findings to various groups, some initial reactions are becoming clear.

The concept that electronic commerce and the Internet are just in their infancy, playing a much larger role in the future, is fairly universal. Keith Erickson, director of corporate procurement at Intel Corporation, agrees. Even though currently, online catalogs are the extent of true electronic commerce, he believes that it's only a matter of time before the technology expands. "The return on investment is very low right now, but we all realize it is going to be how business is conducted in the future," says Erickson.

Another area where Erickson agrees the Internet will expand its role is as an information source to suppliers. At Intel, they have recently launched a home page for suppliers, which allows them access to Intel data.

The areas in which organizations choose to invest is another clue to the acceptance of a predicted trend, such as the development of enterprise resource planning (ERP) systems. The "Future of Purchasing and Supply" addresses strategic cost management and that may have the most profound impact on a company, according to Carter. "If you look at the CEO trends, and their emphasis on stressing cost reductions, the development of ERP systems or strategic cost management systems supports that," he says.

Tactical purchasing and its growing tendency to be outsourced is another of the "Future Forecast" predictions receiving attention. Thomas Slaight, vice president of A.T. Kearney says, "I'm amazed at how much more acceptable outsourcing has become in the last 15 years." A method that was previously only considered applicable for data processing or payroll is becoming commonplace for any function not core to the business.

> "Relationship management will change, but the distinction between supplier and customer relationships will remain. A few companies will see an elevated procurement relationship; others will broaden to a more alliance base."
>
> – The Future of Purchasing and Supply: A Five- and Ten-Year Forecast

One response to "The Future of Purchasing and Supply," is that the predictions do not contain new information. If someone is looking for a shocking statement about the way they will be doing their job five and 10 years from now, they won't find it. The distinction that the "Future Forecast" makes is that these methods will become more accepted, commonplace, and even a standard for the purchasing and supply function.

"The study shows that they will become more prevalent," says Phillip L. Carter, D.B.A., director of CAPS. Whereas in the past, professionals may have read about these practices at leading-edge firms, they should not be surprised to find them more and more, and even implemented at their own organization.

Phillip Carter says another reason these predictions may not seem terribly dramatic is that it is difficult for business executives, or anyone, to predict 10 years into the future. "Few individuals can or will make projections that incorporate major discontinuities," says Phillip Carter. Such discontinuities may be more recognizable in hindsight, but at present, executives must rely on present conditions, combine them with insight, and give their best assessment of the future.

How Far Along Are We?

Several of the trends presented in "The Future of Purchasing and Supply: A Five- and Ten-Year Forecast" may not come as a surprise to purchasing and supply professionals. These practices are in motion at several organizations around the country. The following examples illustrate how these trends appear in practical situations.

Robby Roberts, who works for Southern Natural Gas (Southern Natural), based in Birmingham, Alabama, has a unique title. Since November of 1996, he has been an alliance manager. In March of 1996, his organization went through a reengineering process. The result was an obvious need for stronger alliances and someone to be devoted to that objective.

But what exactly is the role of an alliance manager? According to their official job description, responsibilities include: Managing the relationship with operations, alliance partners, and customers, including terms of agreements, establishment of measures, performance against measures, resolution of disputes and discrepancies, and implementation of enhancements.

Notice the focus on managing the relationship, versus managing a commodity, or a process. Southern Natural realized the importance of devoting efforts specifically to the "human" side of the business relationship.

Wendell Dallas, another alliance manager at Southern Natural stresses that the role includes keeping his organization and supplier organizations aligned with this philosophy. "You really have to remind your partner and your company that this is the direction we all want to go — that is, we all share the same vision."

Southern Natural believes it is the correct direction. "We did it to give better service and, ultimately, see total cost reductions," said Roberts. This may sound similar to the objectives of a typical purchasing and supply manager, but Roberts must be more than that. Taking responsibility for all aspects of the relationships means that he has to represent both parties — the purchasing organization and the supplier. He has to look at long-term relationship issues, so the supplier's interests are always part of his concern.

For example, on a recent project that went over budget, Roberts initiated an examination of all the information, and, after reviewing the project step-by-step, determined that errors were made by the procurement organization and money should be refunded to the contractor. Not only was it the fair thing to do, but in looking at the big picture, that specific amount of money didn't matter as much as maintaining the integrity of the relationship, considering the total cost to the company for that supplier came in at 92 percent of budget in 1997.

This type of relationship model also requires several different skill sets. Behaviors defined on the job description include: being a good communicator, being a good facilitator, and being patient. Alliance managers require the interpersonal skills which foster solid working relationships between suppliers and internal customers. This is not to say traditional purchasing and supply skills are not also needed. But the alliance manager will start with the basics and take them one step further by applying them to a *relationship* rather than just a purchasing transaction. "You have to be a change manager," says Roberts. Getting competitors working together is just one example of how an alliance manager works with changing philosophies. If Southern Natural is developing a supplier to handle painting in a particular territory, the alliance manager may work with another painting alliance contractor, from another territory, to share techniques and processes that will benefit the other supplier and Southern Natural. The alliance manager facilitates that communication and maintains the balance in both relationships.

"Sometimes you have to be pretty thick-skinned," says Roberts. "Until people understand this idea, you have to do quite a bit of explaining." They try to do extensive explaining when evaluating the possibility of an agreement, by bringing in suppliers and giving them a full presentation. "We tell them how we operate, and we want to understand how they operate also." Not all have been receptive to this concept. In some situations, suppliers have chosen not to enter into the relationship because of it. "But we hope that next time around, they'll see the benefits of what we do," says Roberts.

"The Future of Purchasing and Supply" predicts an increase of professionals in this role. Dallas agrees that people in this capacity are definitely a necessity. "In order for any company to survive, they've got to figure out how to get to these synergies and cut total costs." Will this happen more frequently in other organizations? According to Roberts, the major hurdle standing in the way is a culture change by both the service provider and the end user to have trust between the parties. "It's hard for both to look at each other as working toward a common goal rather than the old style of 'who can get the most out of whom,'" he says.

Dallas adds two other key success factors. "It's got to be driven from the top or it's not going to work." Also, to be a true alliance, he explains that the commitment to the relationship must be just as strong in both the procurement and supplier organizations. And all the parties involved must understand that it will take time to perfect. Dallas says the benefits are gradual; you won't see them right away. "The first year implementation will be painful; the second year might be better, as both organizations begin to see benefits; hopefully by the third year, it's how you envisioned it would be. Even though we're in the early stages, we've come a long way. It's a long-term commitment." ➤

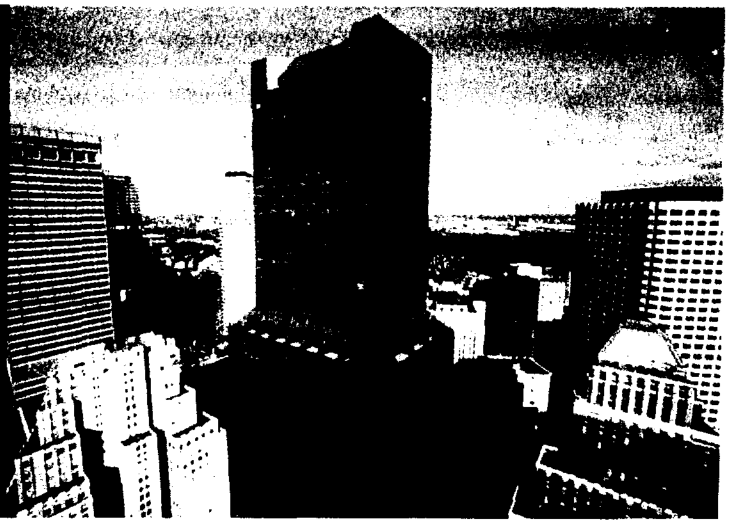
C

You are in the hotel industry. One of your strategic functions includes housing guests and making their stay at your facility a pleasant one. One day you receive a telephone call from a long-time supplier. This smaller company provides you with the butter cream chocolates that are left on guests' pillows each night — a signature trademark of your company. During the course of the telephone conversation, your supplier informs you that their human resource department is in shambles. A couple of key employees have quit and the lack of organization is disrupting their day-to-day functions. You offer to send them some of your human resource personnel to sort through the confusion, and keep administrative procedures, such as payroll, insurance benefits, and basic employee contact running smoothly, until they can hire some additional staff on a permanent basis. You also offer to help them with the hiring process, and in the meantime, share with them some human resources practices that have been proven "winning ways" in your organization.

According to "The Future of Purchasing and Supply," in the future, supply chain organizations will share an unprecedented amount of resources with other members in the chain. Although there is no general consensus that financial resources will be included in that pool, other resources, especially those in non-strategic areas will flow freely between supply chain members. The motivation for this sharing process stems from the deep relationship factor between the organizations. The realization is that world-class suppliers are needed to meet future competitive requirements and lending aid or support to a supplier is helping your own organization. The focus will be "What can we do as a supply chain?"

Southern Natural Gas employs alliance managers, who facilitate various supplier relationships. The perfecting of these alliances has allowed both the procurement organization and the supplier to maximize opportunities for successful projects, such as this one at a pipeline construction site.

> "Globalization will become a reality for many supply chains; companies will develop world-class suppliers in emerging markets."
>
> – The Future of Purchasing and Supply: A Five- and Ten-Year Forecast



By exploring global supplier possibilities, BankBoston has been able to leverage the expertise it already has with existing suppliers. Value-added practices make their way from the streets of Boston to South American locations thanks to the efforts of the bank's procurement team.

If a division of your company, were experiencing phenomenal growth, including increased revenues, it would only make sense to provide that division with the best resources to give them a strategic competitive advantage, correct? BankBoston certainly thinks so. In South America, they have banks in Argentina, Chile, Brazil, and Uruguay that are tripling their number of branches and contributing over 20 percent of the total organization's revenues.

Yet despite this expansion, and obvious market growth, the business philosophy, in terms of purchasing and supply management's function, was lagging behind. Their transaction-driven philosophies were not unlike common U.S. practices 20 years ago. BankBoston has taken a strategic approach to supplier development in the United States in recent years, and they wanted to leverage their expertise in South America as well, according to Vin Bosco, senior commodity manager at BankBoston. They wanted to apply some of the strategies, such as reducing supplier base and pre-negotiated pricing, to the foreign banks.

Dick Anderson, director of corporate supplier management, moved to South America to develop a corporate supplier management business plan, an element of which was the implementation of new processes. As the development evolved, it became apparent that current U.S. suppliers might be the perfect resource. "Introducing some of the synergy that we experience with our domestic suppliers became an obvious choice," says Anderson. For example, in the foreign banks, dead files and old documents were being stored in warehouses for excessive periods of time and in a rather inefficient manner. Anderson was able to present them with a different picture: On the domestic front at BankBoston, through strategic supplier agreements, an outsourced records management program was developed, utilizing retention schedules and a sophisticated management approach. This vastly improved the processes and eliminating the need for a bank-owned warehouse.

Presenting these concepts meant strategic suppliers accompanied Bosco on expeditions to various South American banks. "The goal is to give these banks a competitive advantage," says Anderson. During these visits, the domestic supplier and BankBoston analyzed the situation and determined what the best approach would be to make that happen. The suppliers' purpose on these trips is multi-dimensional. For the presentation of ideas, they acted as consultants and educators. They were able to make determinations about, for example, the records management market in that region. It was also crucial that they be considered a resource to the local supplier, not a competitor. The exact role that the U.S. supplier will play is undetermined. Some may become suppliers to the South American banks; some may choose a joint venture with the local foreign supplier. "We're still in the evaluation stage," says Anderson. "It may just be an educational process (for the foreign banks) or they may end up in a partnership." No matter the specifics of the relationship, the knowledge and resources gained will aid in their strategic operations.

Combining domestic suppliers, foreign markets, and foreign suppliers is certainly no easy task. What does it take to initiate this scenario and take forward steps so that all parties can realize the benefits? "Reverse marketing," says Bosco. "With our domestic suppliers, we had ongoing discussions, showing that it would be in their best interests, not only to serve a need of BankBoston, but also in terms of their own strategies." This type of action doesn't fit into all supplier strategies, but for those that had been aware of foreign possibilities, this initiative by the procurement organization was just the push they needed.

Getting domestic suppliers to cooperate is just one aspect. The foreign banks and

C

You manufacture grandfather clocks. You set up a meeting with your strategic partner who provides brass rods used in the pendulum. You have determined that if those rods arrived at your factory in 3-foot segments, as opposed to 12-foot segments, you would be able to save an entire step in your manufacturing process. It will increase your supplier's costs as they make more cuts when rods come off their production line. Together, with calculators in hand, you and your supplier weigh your potential cost savings against the extra cost to them. By the end of the session, figures show that by adopting the new process, your production cost savings will be greater than the supplier's cost increase, the list price of clocks can be decreased by 4 percent, and market share will increase within 6 months. You both agree to this new arrangement and the negotiation is complete.

According to "The Future of Purchasing and Supply," negotiations with suppliers will become much less heated and much less emotional, though they will remain extremely competitive. No longer will one organization have to lose in order for another to win. Both organizations will be coming to the table with the objective of adding value to the supply chain process. Through more open communication, the parties involved will look at information objectively, and make sound decisions that will give their supply chain a competitive advantage over another competing supply chain. If any procurement partner or supply partner "loses," it is considered a loss to all. Anything less than a win-win situation will be considered a failure.

You are an entry-level buyer responsible for MRO supplies. Today, you've ordered $8,000 worth of office supplies from your preferred supplier, finalized a contract for new carpeting at corporate headquarters, sourced for the best rate on in-house printing services, and solicited feedback from internal customers on your company's cafeteria service. You didn't touch one purchase order or paper document. Thanks to the Internet, and your supplier's online catalog, the office supplies are on their way and payment will be automatically sent upon receipt. The finalized contract was routed to your supervisor — even though she's traveling this week — and her authentic signature came back to you in minutes. Rumor has it there used to be five or six people assigned to the tasks you finished today.

One trend predicted by "The Future of Purchasing and Supply" is that the Internet's impact on the supply chain will rival the interstate highway's impact on the transportation industry. The major obstacle to this path is security issues. But as technological advances are made, purchasing and supply professionals will have so much secure information and tools at their disposal that the determination of a good purchasing system for non-strategic items will be based on the efficiency of purchasing execution. Although the personnel resources for tactical purchasing will diminish, they may just be reallocated to more strategic functions.

their local suppliers may feel extremely threatened by this concept. Anderson, who spent months with the foreign banks before recruiting the U.S. suppliers, says that you must be careful to respect past practices. "How foreign entities do business is probably not going to be the same, but that doesn't necessarily mean it is going to be wrong," says Anderson. The cultural differences, combined with the prevalent "traditional" purchasing and supply philosophies meant that these new ideas weren't always easily grasped. "To leap 20 years in one office visit is a difficult thing to accomplish," says Anderson. His physical presence in South America helped to create the climate appropriate for suggesting U.S. supplier involvement.

One of the initiatives addressed by "The Future of Purchasing and Supply" predicts that this type of practice will become more prevalent in the coming years. Leading-edge companies will develop world-class markets and continue to ask current suppliers to grow with them. In some situations, existing domestic suppliers may partner with the foreign local supplier. The strategic cost savings, to all parties, might make this methodology a future standard, as "The Future of Purchasing and Supply: A Five- and Ten-Year Forecast" predicts, but it will only succeed if organizations realize its limitations.

"It is not a cookie cutter formula," says Anderson. BankBoston realized that in this particular situation, with the extreme rate of growth in South America, there was an opportunity. But what is working in one area of the world may not in another; what attracted one domestic supplier will not appeal to all. And even once a supplier is involved, the situation will be customized depending on the needs of the foreign parties. "To introduce these new practices presents tremendous opportunity," says Anderson. ➤

Technicians working on the production line at Bosch Automation Technologies use a wide variety of tools and other MRO supplies each day. All these materials now come to Bosch through an integrated supplier, who, by tracking, procuring, and managing all non-production items, has taken the place of 70 MRO suppliers.

"Third-party purchases of non-strategic items will increase. Leading firms will buy all tactical *products* and *services* under master contracts."

– The Future of Purchasing and Supply: A Five- and Ten-Year Forecast

A reoccurring theme when discussing purchasing and supply management's function is adding value. Many would say that the procurement of the tactical items does not add value, but handing over management of non-strategic items to a third party — making *that* procurement decision is going to add value. Using an outsourced supplier's buying leverage for your benefit frees up purchasing and supply managers for more strategic activities.

Bosch Automation Technology has made this move. Based in Racine, Wisconsin, Bosch designs, manufactures, and implements factory automation systems, and has locations throughout the world. At the Racine location, Bosch contracted a supplier who specializes in providing an integrated supply service. Under the 2-year contract, this third-party provides anything that is not used within the production of product. That includes perishable toolings, shop rags, and items that go into maintaining the facility.

The supplier provided the software that is used and they manage that inventory. Bosch doesn't pay for any of the products until they use them and they've saved by eliminating individual purchase orders. "It takes us out of the whole planning and procurement process for standard supplies not associated directly with production," says Frank Wolkenheim, purchasing manager for Bosch.

The major benefit is cost savings. "Some of the items that we're talking about have such a small dollar value that the administrative costs associated with their procurement were ridiculous in comparison," says Wolkenheim. Since the switch to an integrated supplier he estimates the savings to be in the 20 percent range, and they've eliminated 70 MRO suppliers. They also save by eliminating redundant processes, like filling out the same paperwork month after month for standard supplies.

In addition to supplying materials, the third-party assigns an applications engineer, who works on-site at Bosch. That person works directly with Bosch employees on product improvements. They deliver tools right to the company's work stations, saving on labor and reducing administrative costs. "It has improved the productivity of our people," says Wolkenheim. "Down the line, that improves the quality of our final product."

Certainly this type of third-party agreement is in use today, but will the predicted trend become standard practice? Wolkenheim says that although integrated supply isn't a new idea, it is getting more and more recognition. At Bosch, the operation is expanding to include some of their other facilities.

In order for this practice to be successful at other organizations, they will have to make an informed decision about which integrated supplier is the best fit for their organization. At Bosch that meant comprising a cross-functional team, which examined several integrated supply services. They made precise calculations about the savings, in terms of time and money.

His advice to any organization considering a third-party supplier for non-strategic items is to realize that no supplier program is the same. Most have a good understanding that for any organization they service, there is going to be customization. Once the process is in place, modifications may be needed, and purchasing and supply managers should try to be as encompassing as they can. Says Wolkenheim, "If I'm trying to locate a particular item, my first thought is that perhaps my integrated supplier can help us out."

The above organizations have taken strides that coincide with the trends published in the "The Future of Purchasing and Supply." But an isolated incident does not a trend make. The study implies that these activities will increase, become more acceptable, and more resources will be provided in the next five and 10 years. Until that time, leading companies will venture into these activities, perhaps shocking suppliers and business partners along the way. But that is where the lessons will be learned. The successes that purchasing and supply professionals read about today, may become their task tomorrow. ■

CAN YOU IMAGINE....

...[illegible] inventory on the accessories that go with your brand of bakeware. Your manufacturing schedules are triggered to accelerate the movement of more materials. Your supplier realizes that you will need more stainless steel shipments as your production increases. The trucks which deliver to you are automatically notified. This entire process transpired while the local distributor keyed the initial sale into their computer.*

[illegible] and be able to plan accordingly. The [illegible]ishment product will be "pulled" through the supply chain, as electronic triggers are given to all concerned links. The key to this trend becoming a reality is the compatibility of electronic systems between purchasing, supplier, and customer organizations.

By **Roberta J. Duffy**, *writer for* Purchasing Today®.

*Photo (page 41) by **Southern Natural Gas**, (page 42) by **BankBoston**, and (page 44) by **Bosch Automation Technology***

The trends have been presented. What can you do to prepare for them?

It's nearly impossible to pick up any magazine or newspaper that is not reporting the results of an in-depth survey or study. Researchers and academicians produce volumes of data and analysis on a multitude of topics. While this information may be very interesting, it only becomes valuable when its applicability can be determined. As a supply manager is charged with reducing production costs, what steps should be taken to prepare for these trends? As a purchaser talking with suppliers each day what are the most important lessons to absorb from the study? As a buyer sourcing for materials, what active role can be played in the implementation of new processes?

According to the researchers of "The Future of Purchasing and Supply: A Five- and Ten-Year Forecast," purchasing and supply professionals, whether they are at an executive or buyer level, can be active in the manifestation of or preparation for these trends. The trends presented show the changing nature of the profession, as its professionals will be required to be more of a value bridge between suppliers and internal customers, rather than merely finalizing contracts. They will be charged with adding value to the total organization through their supplier relationships. To move to this next level, which brings recognition to the profession, as well as having a strategic impact on the company, here's what will be required.

Advice from the Researchers

Thomas Slaight, vice president at A.T. Kearney, suggests the following steps:

- Examine your own procurement organization, in conjunction with other executives, and determine your core competencies. What activities do you do that best support the business? These will solidify your strategy and dictate which of the 18 core initiatives you can focus your energies upon.

"Realize that procurement is going to be asked to play a much larger role than in traditional business models."

– Thomas Slaight

- Next, determine your one, two, or three most strategic suppliers that support those core competencies. This is not necessarily your largest suppliers, but the ones that are integrally linked with your strategic plans. As your business is going forward to the future, these are the suppliers that will be making those changes with you.
- Establish a rotational program that would place engineers, marketers, and employees from other departments into the purchasing and supply department and vice versa. This rotation is required for all parties to understand internal requirements. As relationships within the organization become more integrated, and responsibilities overlap with cross-functional teams and relationship managers, this knowledge is vital. It also helps to establish the rights of the purchasing and supply function within the organization.
- Realize that procurement is going to be asked to play a much larger role than in traditional business models. Even entry-level buyers can prepare for these trends by taking a more active role in knowing sources of supply, knowing unique and competitive ways to receive materials, and understanding the supplier marketplace so that opportunities become apparent.

Robert M. Monczka, Ph.D., C.P.M., NAPM professor at Michigan State University, adds:

- Put in place an extremely effective strategic cost management program. Based on the 1997 CEO Global Business Study by A.T. Kearney, cost reduction issues are still the main focus of CEOs, COOs, and CFOs, in terms of the role purchasing and supply chain management plays in any organization.
- Attempt to fully integrate the supply chain on a step-by-step basis. This should be done by applying information systems technology.
- Link the organization's purchasing and supply function to the economic performance of the firm. There may be parties, both internal and external, that say this is not possible, but through strategic cost measures it is not only possible, but a necessity to be a strategic player in your organization. One

Continued on page 49

Tying It All Together

"Most of the global trends that were initially gathered spoke to a macro level. A few were concerned with major business and organizational issues. Virtually none spoke specifically to the issues of purchasing and supply in business organizations. Thus the project had to make inferences about the implications of the global trends for purchasing and supply, on organization and individual levels," says Phillip L. Carter, D.B.A., director of CAPS. This is similar to the challenge that now faces purchasing and supply professionals as they take these predictions and relate them to their own organization. In the logo designed for the study, the objectives are illustrated. Global issues, individual actions, and organization objectives are ultimately intertwined, with each factor impacting and reacting to another. (For more information on the global trends that were examined, see "What Will Make the World Go 'Round?" on page 48.)

What Will Make the World Go 'Round?

As researchers began collecting data for "The Future of Purchasing and Supply: A Five- and Ten-Year Forecast," one of the first steps was to examine global environmental trends that will shape our future. This information, gathered from various publications and sources, may be applicable to any individual or organization, on both a business and personal level. These trends, and their implications, were used to develop the 18 core initiatives that are addressed in "The Future of Purchasing and Supply."

Demographics

The population will increase rapidly, with trivial slowing beyond 2003. The majority of growth will be in developing countries. Increased migration and resultant diversity in the labor force will occur. The average age of the population will increase from 25 to 42 by 2050.

Natural Resources and the Environment

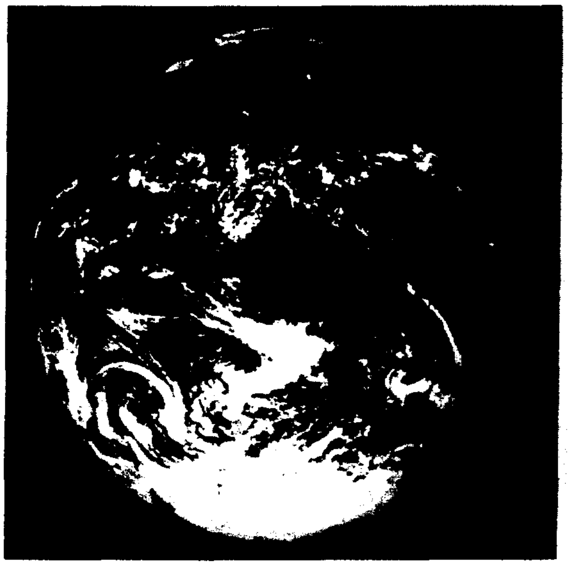
Energy needs and consumption will rapidly increase, due largely to population growth, increased per capita consumption, and urbanization. Energy consumption alone will increase by 54 percent worldwide by 2015. Food supplies will exist to meet demand, but infrastructure and political problems will keep a large percentage of the population in developing countries underfed. Water will be a limiting factor in agricultural production in developing countries. There will be increased integration of trade and revised environmental agreements. International environmental standards will be set for all new technologies. Differentiated environmental rules will exist for developed and developing countries.

Social/Political Environment

There will be continued existence of small, localized conflicts and fundamentalist movements punctuated by religious struggles and human rights movements. Global economic powers will include China, followed by the United States, Japan, and other Asian influences after 2003. There will be a transition from regional political alliances to global arrangements.

Industrial Policy

Falling trade barriers, expanding transportation networks, and explosion of technology will establish links between the world's manufacturing and service providers. Privatization will increase. Intellectual property rights will continue to be difficult to enforce as the gap between rich and poor nations widens.



Global Business Environment

Gross Domestic Product and Gross National Product growth will be at approximately 4.3 percent in the near term. Investors in industrialized nations will continue to invest in high growth potential countries with stable economic and political environments. We will see greater linkages among world equity and bond markets with continued strong growth. With relatively low/stable interest rates, companies will continue to invest in increased capacity worldwide.

The Work Environment

In developed countries, greater responsibility and flexibility will be sought by employees, including increased telecommuting, increased number of women in the workforce, and increased average age of population. In regard to employee skills, there will be an increased emphasis on accumulation of human capital, a lack of technically qualified personnel, increased replacement of expatriates by indigenous personnel in managerial positions, increased number of women with a declining number of older men in the workforce, and increased migration of unskilled workers into developed countries. Researchers predict vast improvement in educational levels of both developed and developing countries, a boom in college enrollment through 2010 worldwide, particularly in the United States, and continual improvement in educational levels of developing countries.

Technology

Explosive growth in the development and use of information systems will lead the technology revolution as information and other technologies advance at an accelerated rate. Further use of computer aided manufacturing and process improvement will result in lower costs and greater flexibility.

Market Transactions

Consumers are more willing to shop for name brand items at a discount price. Consumers are looking for the outstanding product at a reasonable price. Retail shopping will continue to exist, but there will be a disparity between the discount end and high end — both of which will prosper. Internet commerce will be commonplace and businesses that do not transform and adopt the world of e-commerce will be faced with extinction. Consumers will be able to shop for all goods from home and the firms that excel in providing a user-friendly, customer service oriented "product" will be the most successful.

The challenge researchers were faced with was determining how the above trends would impact business organizations, and ultimately, purchasing and supply professionals. Understanding the global trends, transferring them at the organizational level, and applying them at the individual level will be the key to truly taking advantage of any research study.

Continued from page 47

The Future of the Forecast

What is the next step for researchers, in terms of "The Future of Purchasing and Supply: A Five- and Ten-Year Forecast"? According to Phillip L. Carter, D.B.A., director of CAPS, the options remain open to conduct a similar study in coming years. Since the study addresses the purchasing and supply profession using five- and ten-year forecasts, it would be interesting to revisit focus groups at those windows and see how accurate predictions in this year's study were. In addition to comparing current forecasts, new purchasing and supply initiatives could also be isolated. Carter says that although some specifics within the methodology would change, the final study would still be comprised of elements that pertain to global, organizational, and individual issues.

step to accomplishing this is to get finance involved.

In addition, Joseph R. Carter, D.B.A., C.P.M., NAPM professor at Arizona State University, offers the following advice on how professionals can prepare for the future, taking into account the trends that researchers have predicted:

- Standardize and simplify your supply chain. Procurement organizations will be required to form strategic alliances, but in order to apply that focus, a clear determination of who is in your supply chain and their exact role will be required. Standardizing your supplier performance metrics will be important for evaluation and measurement.
- Align the procurement strategy with the corporate strategy. Carter agrees with Slaight in stressing the importance of linking the mission of purchasing with corporate objectives. Not all of the 18 issues addressed by "The Future of Purchasing and Supply: A Five- and Ten-Year Forecast" will apply to every organization, and of those that do apply, not every issue is a core competency. Narrowing your focus to those strategies in which procurement can add value is the key to getting the most out of this study.
- Participate in self-education. It is apparent that many of the trends predicted may not have a day-to-day affect on each member in a purchasing and supply department. Many discuss strategy decisions or other upper management concerns. For the professional that does not play that role in their organization, it is important to prepare for the fact that eventually these trends will have an affect, even on day-to-day operations. By doing a self-assessment, continuing corporate education, and absorbing knowledge about the supply chain, purchasers at all levels can play an active role in whatever changes may come.

Phillip L. Carter, D.B.A., director of CAPS, provides some interesting ways that organizations and individuals can use the information provided in the study:

- Compare company forecasts with the forecasts provided in the study. Look for major differences between the two. For example, one of the concepts discussed in "The Future of Purchasng and Supply" is supplier assessment. The report says evaluations will become more precise and detailed. Does your procurement organization have plans to incorporate more comprehensive supplier assessments? If you see conflicting priorities, those areas should be examined and rationalized.
- Use the forecasts for dynamic planning exercises. Various scenarios could be constructed using different assumptions about different forecasts and different mixes of the forecasts. Examine factors such as rate of the change and the impact of the change. A range of outcomes could be constructed with various probabilities attached to each. This would allow for both planning and risk management by the organization.
- Follow the trends. As the forecasts are repeated and updated by CAPS and NAPM, companies can match their own experiences against their forecasts. This will allow them to integrate rates of change and forecast error into their planning process.

As with any advice, it needs to be taken in perspective. As organizations evaluate which of the 18 initiatives are applicable to them, purchasing and supply managers will need to prioritize their plans for action. Absorbing the comprehensive research found in "The Future of Purchasing and Supply: A Five- and Ten-Year Forecast" is just the first step. Preparing for the future it predicts will be the responsibility of members in the profession.

*By **Roberta J. Duffy**, writer for* Purchasing Today®.
*Illustration (page 47) by **CAPS***

[redacted]

October 22, 1998 Purchasing

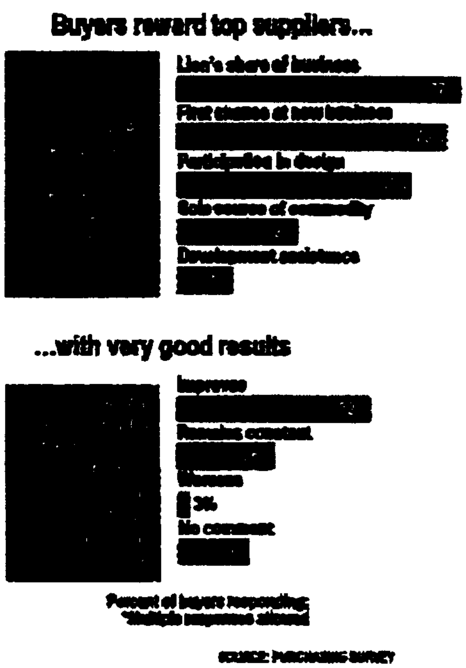
BUYLINES

Buyers pare down supplier rosters

by Mark Vigoroso

Competition among suppliers continues to heat up. In pursuit of lower operating costs, higher quality, and reduced waste, many buying organizations continue to consolidate their business with only the top-performing suppliers. Fully 81% of buyers responding to a PURCHASING survey say supply-base optimization is a stated goal of their organization—a trend that is guaranteed to plant lagging suppliers on the sidelines.

Of the polled buyers whose companies have not made optimization an objective, about 42% say it's not so much a stated goal, as an understood best practice. "Supply-base optimization is a fundamental ongoing task of the purchasing function and should not be considered an extraordinary goal," suggests Jon Piech-owiak, purchasing agent at Dexter, Michigan-based Industrial Tectonics.



Overt or not, most optimization efforts are still in their early stages. Twenty-six percent of buyers have been at it for less than a year, 30% are in their second year, and 22% are in their third. And purchasing organizations are just starting to make a dent in their supply bases. A 53% majority of polled buyers say they have reduced their supply base by just 0%-20%, while 29% report a heartier reduction of 20%-40%. As an indication of what's still to come, 48% envision a moving "finish line," planning to optimize indefinitely.

Optimization pays off

Purchasers have high hopes for their optimization efforts, and some have already begun to reap the benefits of an increasingly fine-tuned supply base. Lower overall cost is an advantage cited by nearly every buyer polled by PURCHASING. Bottom-line savings are the result of lower costs in administration, supply management, inventory management, and acquisition.

"Suppliers stock our maintenance supplies inventory based on predetermined minimum and maximum quantities," says one purchasing agent. "This means fewer man hours for us and a huge reduction in paperwork."

Buyers also point out benefits such as reduced inventory, higher quality, better delivery performance, shorter leadtimes, stable pricing, reduced waste, and greater speed to market. J.J. Keslin, purchasing manager at Grundy Industries, says, "We're seeing standard quality in a timely fashion at a price level at which we and our suppliers will be profitable."

When PURCHASING asked buyers what tends to happen after a supplier has earned preferred status, 52% say performance steadily improves, while 26% notice no change, and just 3% experience supplier complacency. Fact is, once they have achieved preferred status, suppliers often assume collaborative partner-like roles. "Preferred suppliers get to know how we operate up close, which gives them a better idea of what we do and what their contribution means to our success," says one purchasing pro.

Picking the winners

Certain supplier traits earn preferred status from a buying organization, but none is more important than performance. Nearly 9 in 10 buyers say they look at overall performance, including price and total cost, to evaluate a supplier.

"A supplier's contract will address performance issues, and if failure occurs and we cannot resolve the problem, the contract will allow for termination," says Tim Ferguson, buyer at Watlow Columbia.

Other evaluation criteria buyers use include standards for technology development and innovation (60%), conformance to plant operations standards (58%), supplier's financial standing (52%), and supplier's corporate culture (24%).

Incentive for suppliers to compete for preferred status is high. According to our survey, 77% of buyers grant preferred suppliers the "lion's share" of their business for a particular commodity or part, and 73% give suppliers first chance at new business. Further, 63% allow suppliers to participate in the design process, and 32% of buyers settle on a supplier as their sole source for a particular commodity or part.

Rocky road

Reaching the right balance of high-performing suppliers is no easy task. Buyers report road blocks at every turn, from within their company and without. In-house apathy, lack of flexibility, office politics, and variances in user preference often punch holes in optimization efforts.

Diverse internal preferences have been a challenge for Jeffrey Goss, senior buyer at NEC America: "We support many divisions and we can't get them to agree on a primary supplier due to individual needs, and sometimes one supplier can not do everything."

Buyers must also contend with external difficulties, including market volatility and supplier shortcomings. To make matters worse, items like MRO and high-tech supplies are much harder to optimize than others. Indeed, 61% of polled buyers agree that the success of optimization plans depends largely on the parts, materials, or services being sourced.

Dictated by industry standards and/or user preference, many purchasers are subject to the unchecked pricing and performance of a sole supplier. David Abrams, PM at Metal Edge International, offers this explanation: "Highly specialized industries with less competition are more rigid. They don't need to change to stay competitive."

GRASS ROOTS REPORT

Purchasers play global game to win price breaks

The news isn't all bad. Some PMs are still saying things like: "We have all the business we can handle." Many others remain optimistic that business will pick up again in the early months of 1999. Still, PURCHASING's latest grass roots poll of purchasers finds clear evidence that the Asian contagion continues to spread throughout the U.S. manufacturing economy.

Buyers for consumer-oriented companies say demand remains relatively taut. "The economy isn't gangbusters, but it isn't weak," says the PM for a company that makes packaging for pharmaceuticals and cosmetics. "People seem to have disposable income to spend."

On the other hand, a buyer from Illinois says, "the economy must be softening," because, "cold calls and prospecting by potential suppliers has more than doubled in the last 30 days."

A steel buyer in Texas says, "The mills are telling us that Asian steel (beams, plate, etc.) covers the docks in all major ports...Steel service centers have indicated that their inventories are all off-shore material at much lower costs than domestic mills."

Another PM remarks that the, "Asian market has certainly weakened our economy." What is more, he notes that Asian imports appear to be flooding into South America--a situation that is likely to compound economic troubles in the U.S. The PM for a company making non-woven roll goods says business is downright bad. "We're running only 20%-30% of our equipment."

A Texas-based buyer says: "The economy for the oil patch has started declining. Major customers have canceled 25% of orders on the books. Others have reduced buying--and so will we. Some shops have very little to do. All summer help has been released. Overtime will be the next to go."

Here are the latest supply trends noted by PURCHASING's grass roots reporters around the country--

B

Article 1 of 4

QCCN9808900025

Department of National Defence seeks single telecom provider for $300M contract

62 Words
761 Characters

03/02/1998
Canadian Communications Network Letter
Page 4

The Department of National Defence plans to issue a draft request for proposals early in March 1998 in its quest for a single telecom service provider for the next 5 to 7 years. This is a dramatic change in the way DND will provision its telecom services because it will no longer engineer and maintain its own leased private network.
******

2